



June 14, 2016

TRUE NATURE HOLDING, INC.

(OTC – TNTY - \$0.94)

Price Target: \$5.60

Rating: Speculative Buy

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Huge Profits and Higher Value Ahead For Pharmacy Roll-Up

Rob Goldman
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COMPANY SNAPSHOT

True Nature Holding Inc. is actively engaged in a roll-up of compounding pharmacies which have traditionally operated locally but have specialty formulations that may have a larger market. By leveraging product lines and economies of scale, the Company is set for deeper penetration in existing and new markets. It intends to acquire compounding pharmacies that serve both the veterinary and human treatment segments.

KEY STATISTICS

Price as of 6/13/16	\$0.94
52 Week High – Low	\$3.48 - \$0.825
Est. Shares Outstanding	12.5M
Market Capitalization	\$11.8M
3 Mo Avg. Vol.	3,000
Exchange	OTCQB

COMPANY INFORMATION

True Nature Holding, Inc.

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INVESTMENT HIGHLIGHTS

Newly trading True Nature Holding has hit the ground running, announcing three acquisitions in the past 2 month alone. The Company is actively engaged in a roll-up of the highly fragmented compounding pharmacy industry which has traditionally operated locally but offer specialty formulations that may be ripe for a larger market.

Compounding is a practice in which a licensed pharmacist, or a licensed physician, combines, mixes, or alters ingredients of a drug to create a medication tailored to the needs of an individual patient.

A March 2016 IBIS World report states that this segment is an \$8 billion market today. This multi-billion dollar market and broad product utilization is driven by drug shortages, the need for alternative medications or delivery systems for the elderly (liquids versus pills) and those with allergies.

A sleeper growth segment is the compounding medicine for pets which, not only accounts for roughly 10% of all sales, but is more profitable and not subject to as much regulation.

With no succession plan, limited organic growth and too much regulation, operators are eager to sell to True Nature. They can now join a platform that will offer specialty formulations by region and a national footprint for product sales through online channels.

With exponential growth through acquisition and high EBITDA margins through economies of scale, True Nature appears primed to reach our \$5.60 price target. This one-year target reflects a 10x EBITDA multiple on \$7M in EBITDA and \$35M in sales next year. Thus, we rate these low-float shares Speculative Buy.

COMPANY OVERVIEW

With an innovative and highly profitable business model, **True Nature Holding, Inc. (OTC – TNTY - \$)** is poised to emerge as a leader in burgeoning, specialty segment of the pharmacy industry. The Company is actively engaged in the roll-up of locally operated compounding pharmacies for the purpose of building one of the deepest and most diverse offerings of their kind in the industry.

According to the Federal Drug Administration (FDA), compounding is a practice in which a licensed pharmacist, a licensed physician, or, in the case of an outsourcing facility, a person under the supervision of a licensed pharmacist, combines, mixes, or alters ingredients of a drug to create a medication tailored to the needs of an individual patient. Years ago, nearly all prescriptions were compounded. With the advent of mass drug manufacturing in the 1950s and 1960s, compounding rapidly declined. Over the years, pharmacists' roles migrated from medication preparer to manufactured medicine dispenser. Today, however, the market for compounded drugs is on the rise as the health needs of individual patients are not always met by FDA-approved medications and drug shortages have practically become the norm. Still, allergic reactions to drugs, dosage modifications, and a requirement that drugs be administered via a different delivery system (liquid versus pill form for elderly or young patients), are among the key drivers in this niche, heavily localized market.

According to a March 2016 IBIS World industry report on compounding pharmacies, the 4,100 compounding pharmacies in the U.S. generated an estimated \$8 billion in revenue last year, with forecasts suggesting continued growth. Interestingly, serving drug needs for human patients is not the only driver of this space. Compounding pharmacies also create specialized drugs compounded for animals. As the number of pets increases, demand for compounding pharmacies rises, as many pet owners will purchase compounded medications to increase animal compliance with alternative routes of administration.

True Nature management has been very busy during 2Q16. Since April 1, 2016, the Company has announced it has completed agreements or signed Letters of Intent to acquire 3 compounding pharmacies, all located in the Southeastern region of the U.S. Each of these acquisitions has its own unique characteristics, including specialized target market, specialty formulations, technology, etc. These sellers benefit by growing from a local "Mom & Pop" store to being a key cog in a larger platform with a bigger footprint.

At the rate True Nature is closing acquisitions, we would not be surprised to see a handful come under its umbrella by year-end, once it concludes the integration of the three deals announced this quarter. Given that the average sized compounding pharmacy generates \$1-2 million in annual revenue, we believe, on a preliminary basis, that True Nature could end 2016 with a \$10M annual revenue run-rate and nearly \$2M in cash flow from operating businesses. As deal sizes grow and the Company's platform is launched, thus enabling the entity to garner large-scale contracts, such as with hospitals, we believe that sales could reach \$35M or more next year. Depending upon the product mix, EBITDA north of 20% could be in the cards. Our \$5.60 price target reflects a reasonable 10x multiple on a preliminary 2017 EBITDA forecast of \$7M, on an estimated \$35M in sales. We rate these shares Speculative Buy.

INDUSTRY SNAPSHOT

The compounding pharmacy segment is a highly fragmented market that is heavily concentrated on a localized or regional basis. According to a March 2016 IBIS World industry report on compounding pharmacies, the 4100 compounding pharmacies in the U.S. generated an estimated \$8 billion in revenue last year, with forecasts suggesting continued growth due to a variety of factors. Characteristics vary from pharmacy to



Figure 1: Sample Compounding Pharmacy

pharmacy, but most tend to be sole proprietors and must comply and is licensed in accordance with Section 503A or 503B of the Federal Food, Drug, and Cosmetic Act. Those have obtained a 503B license can have outsourcing facilities that enable a stocking inventory for resale by doctors and hospitals. Obviously, these pharmacies tend to be the larger of the two types.

Compounding is a practice in which a licensed pharmacist, a licensed physician, or, in the case of an outsourcing facility, combines, mixes, or alters ingredients of a drug to create a medication tailored to the needs of an individual patient.

Years ago, nearly all prescriptions were compounded and today the market for and use of compounded drugs is on the rise as the health needs of individual patients are not always met by FDA-approved medications. For example, nearly one-third of all compounded drugs are manufactured with alternative ingredients.

Compounding pharmacy products are truly customized medications addressing patient needs. Drug shortages at pharmaceutical manufacturers have been a driver of growth over the period by boosting the need for custom-made drugs. Moreover, patients may have allergic reactions to mass-manufactured drugs, require dosage modifications, or require that drugs be administered via a different delivery system (such as a liquid versus pill form for elderly or very young patients.)

Most compounding pharmacies are also known for their specialization which can include a specific therapeutic category, target market, specialty formulations, technology, etc. Compounding pharmacies also create specialized drugs compounded for animals. As the number of pets increases, demand for compounding pharmacies rises, as many pet owners will purchase compounded medications to increase animal compliance with alternative routes of administration. According to a 2015 IBIS World Report on the industry, the publication's study estimated that as much as \$550 million of the revenue in the space is derived from the sales of prescription medications for dogs and cats. Clearly, this is a "sleeper" growth segment for the industry, especially since this segment is not subject to the same type of regulation as the human market.

Speaking of regulation, pending changes serve as "negative" drivers in the market as well, which actually play into the Company's hands. New regulations taking effect in the next 2 years will require significant capital expenditures to the tune of hundreds of thousands of dollars make some pharmacies weary about going on alone. Most of these business owners typically do not have succession plans or exit strategies. As a result, True Nature can acquire revenue-generating and EBITDA profitable companies and their assets at a (low) private market valuation build on that base through cross-sale opportunities and economies of scale and

increase the Company's overall public market valuation. The fact that 3 deals were signed already illustrates that the True Nature roll-up strategy is primed for future deals.

THE MODEL, THE DEALS

The Company is actively engaged in a roll-up of revenue-generating, EBITDA profitable compounding pharmacies in order to produce and sell pharmaceutical products, including specialized compounded pharmaceutical formulations, for both the human and veterinary markets.

One of management's key strategies is to use compounding pharmacies to formulate its proprietary compounded drug formulations and distribute them to physicians and patients. However, the Company has elected to focus on the acquisition of compounders who have a) a large client base in the veterinary area, b) a strong set of proprietary compounding solutions, versus non-proprietary "over-the-counter" (OTC) medicine sales, and c) where the combination of incremental operations will foster the cross-sale of a growing line of proprietary compounds into the respective markets of each new market participant acquired.

Economies of scale can be achieved from the consolidation of:

1. Materials procurement;
2. Compounding activities combined into larger, more efficient and higher quality facilities;
3. Expanded marketing nationwide with an emphasis on densely populated urban areas where an expanded product line may increase the profitability of each individual branch, when compared to pre-acquisition sales, and;
4. Consolidated administration and personnel functions.

Management has already proven the ability to scale rapidly. The key takeaway is that a national organization can more effectively leverage broad based marketing of their products, and that the catalog of specialized compounds will grow as acquisitions are completed. Further, management plans to create regional locations that have better capabilities for certain types of compounding and preparation processes, such as sterile liquid, encapsulated or complex formulation packaging. Those locations are expected to be developed as the acquisitions are increased regionally, to keep delivery and labor costs minimum. An ideal acquisition target will have 50%, or greater, of their historical revenue aimed at the veterinary business area, and 50% or greater of their historical revenue will be attributable to their compounding library.

True Nature's product formulation due diligence process is geared toward the commercialization of selected opportunities. These commercialization efforts are centered on a select group of promising formulations that may be patentable and that could have broad appeal to patients and physicians. Separately, collaborative relationships with physicians and pharmacists should bring additional clinically and commercially relevant formulation opportunities to the Company for potential development.

Roll-up Objective: The Company plans to develop a network of compounding pharmacy operations comprised of both 503(a) and 503(b) operators to provide products not only for individuals intrastate but also for filling large orders intrastate especially at doctors' offices and hospitals.

Deal #1 (Closed)

In business for three years, *Integrity Compounding Pharmacy* is established in the Georgia pharmacy marketplace. The pharmacy is noted for its specialty female products.

The total consideration for the transaction is approximately \$1,000,000 and includes the acquisition of certain special formulations as "Intellectual Properties," as well as a 3-year employment contract and 125,000 of restricted stock for the owner.

Deal #2 (LOI)

True Nature signed a letter of intent to acquire *Cherokee Custom Script Pharmacy* of Holly Springs, Georgia. Cherokee was the first pharmacy in Georgia to be accredited by the Pharmacy Compounding Accreditation Board (PCAB), a service of the Accreditation Commission for Health Care (ACHC). The business traces its roots back 20 years, sells a good deal of drugs for pets, and should close in June 2106

Deal #3 (LOI)

Innovation Compounding is a compounding pharmacy that supports over 1,400 prescribers, 17,000 patients and 43,000 prescriptions annually. Their product specialties include men's and women's health, pain management, weight loss management, allergy treatments and nutritional therapy. The acquisition should close by June 30, 2016.

EXECUTIVE LEADERSHIP

James Driscoll, CEO

Mr. Driscoll joined the Board on April 15, 2016. He is an experienced senior manager with extensive merger and acquisition history, as well as investment banking. He is currently CEO of Channel Terminals, LLC, which is involved in the oil industry serving international markets. He is also a member of the Board of Directors at Double Zero Recycling. He is an advisor to a number of companies including Funding University a peer-to-peer online lending platform for secondary education, HealPros, a health care logistics for health plans and health systems through a fully outsourced model of delivery. Previously he was President of Method Holdings, LLC from June 2011 until October 2013. Prior to that he was a Senior Partner with 1848 Capital Partner from January 2006 until June 2011, a mid-market private equity/growth capital firm where both operating and transaction experience were required. He has an MBA from Harvard University in 1991, and a BA from Bowdoin College in 1984.

Stephen Keveaney, CFO

Mr. Keaveney is a career executive working in entrepreneurial organizations experiencing high growth or change. From August 2014 to present, Mr. Keaveney was the Chief Financial Officer of Connectivity Wireless. From March 2013 to April 2014, Mr. Keaveney was CFO of Innotrac Corporation, a \$125 million rapidly growing ecommerce fulfillment business (NASDAQ: INOC). While at Innotrac, Mr. Keaveney helped engineer the \$114 million take private leveraged buy-out. Prior to that, from September 2010 to March 2013, Mr.

Keaveney was the Chief Financial Officer of BeavEx, Inc., a \$300 million Logistics business, with 5,000 drivers in 100 locations serving 47 states. While there, Mr. Keaveney led a restructuring of the business changing IT strategy, bonus structures, financial reporting and budgeting to increase EBITDA from \$4M to \$10M EBITDA. BeavEx achieved a successful exit for the founder selling to a private equity buyer.

Mr. Keaveney secured \$45M of debt financing and completed four acquisitions growing revenue by 50%. He began his career working in his family cable television business. He worked with Deloitte in NYC and earned a CPA and MBA. Spending 16 years of his career in Europe, Keaveney was one of the Founders of Cable Management Ireland (CMI). CMI rolled up 28 cable television businesses and exited through a successful trade sale to Liberty Media for \$100 million after 10 years of building the business. CMI employed 150 people, was backed by Advent International. Mr. Keaveney was a founder of eTel Group, a private equity backed rollup that acquired 13 telecom businesses in Eastern Europe and exited through a trade sale to Telecom Austria for \$130 million. Mr. Keaveney managed the fundraising of \$175 million of equity for Airtricity, a successful European renewable energy business, which exited through a trade sale to SSE and Eon for \$4.2 billion. He resides in Atlanta and holds an MBA in Finance from Pepperdine University (1989), a BA in Accounting from Villanova University (1986) and is a Certified Public Accountant (CPA) in the State of Pennsylvania.

FINANCIALS

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RISK FACTORS

There is always risk associated with a series of acquisitions, with respect to efficacy, integration, profitability, growth, etc. Some deal may also take longer to fully integrate, thus causing delays in achieving business model success. Other risks include a larger player entering the space or conduct a roll-up of other firms, thus negatively impacting the Company's model. Still, we believe that the diversity of the business model and low industry operating costs especially due to economies of scale, are strengths rather than risks and that the other issues are commensurate with firms in the industry and of TNTY's size.

Volatility and liquidity are typical concerns for newly listed microcap stocks that trade on the over the counter market with small public floats such as with TNTY where fewer than 300,000 are in the public float. As a result, the stock is subject to sharp swings. Moreover, since this stock is newly traded, there is limited current available financial data at this time. But, as the year goes on, we expect the income statement to accurately reflect revenue generation and future potential. We should note that the shares outstanding could increase due to potential capital needs or to execute acquisitions. However, since the proceeds of any future funding would

likely be used in part to close on M&A, we believe that any dilutive effect from such a funding would be nullified by a related increase in overall market value.

CONCLUSION

Newly trading True Nature Holding has hit the ground running, announcing three acquisitions in the past 2 month alone. The Company is actively engaged in a roll-up of the highly fragmented, \$8B compounding pharmacy industry which has traditionally operated locally but have specialty formulations that may have a larger market.

A sleeper growth segment is the compounding medicine for pets which, not only accounts for roughly 10% of all sales, but is more profitable and not subject to as much regulation.

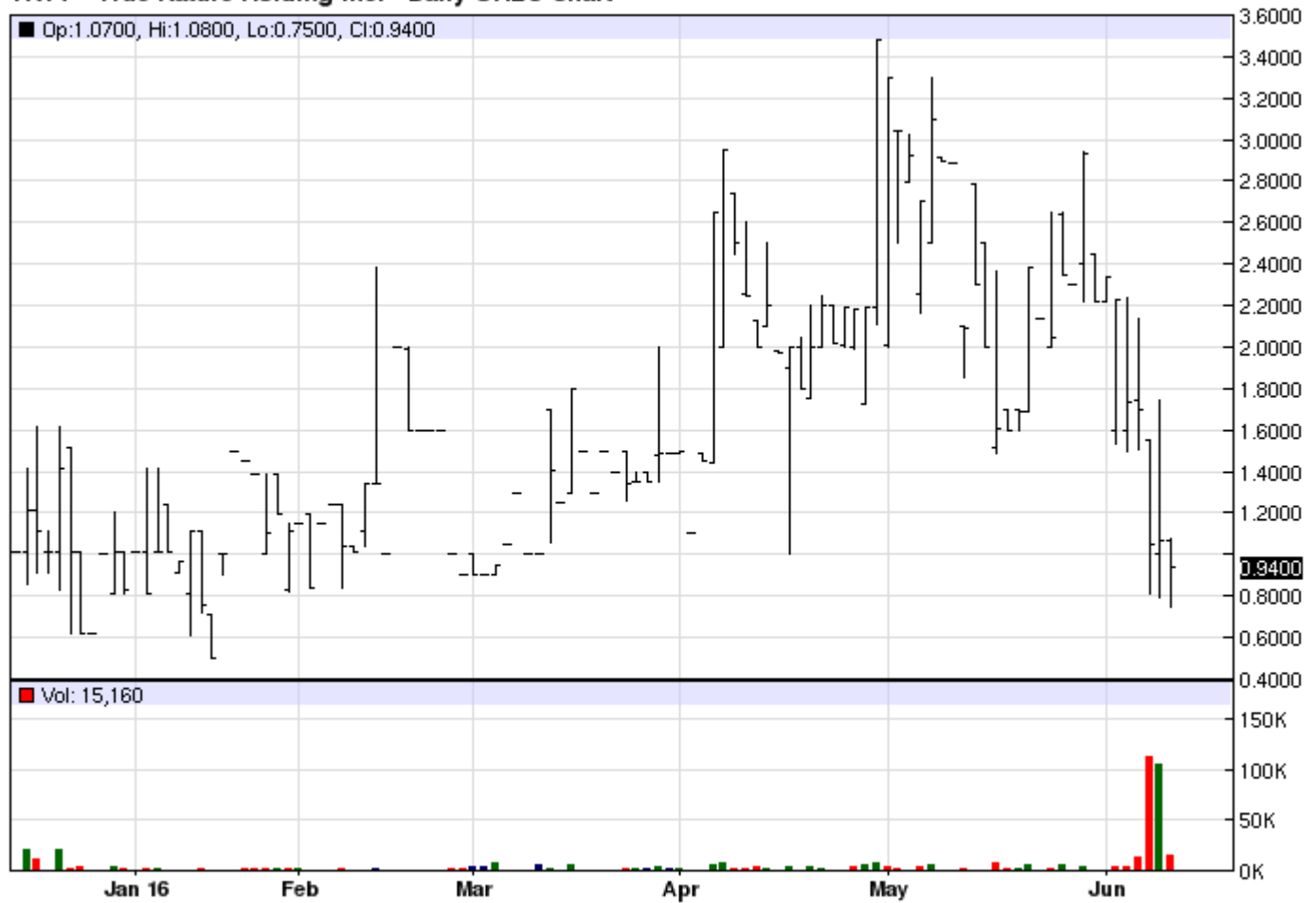
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RECENT TRADING HISTORY FOR TNTY

(Source: www.BarChart.com)

TNTY - True Nature Holding Inc. - Daily OHLC Chart



SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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